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SACHI A. HAMAI
Interim Chief Executive Officer

"To Enrich Lives Through Effective And Caring Service"

June 02, 2015

ADOPTED
BOARD OF SUPERVISORS
COUNTY OF LOS ANGELES
19 June 2, 2015
Patrick Ogawa
PATRICK OGAWA
ACTING EXECUTIVE OFFICER

The Honorable Board of Supervisors
County of Los Angeles
383 Kenneth Hahn Hall of Administration
500 West Temple Street
Los Angeles, California 90012

Dear Supervisors:

ADJUSTMENTS TO EMPLOYEE RETIREMENT CONTRIBUTION RATES FOR PEPRA DEFINED BENEFIT PLANS ALL DISTRICTS (3 VOTES)

SUBJECT

Recommendation to approve adjustments to the employee retirement contribution rates for the Los Angeles County Employees Retirement Association (LACERA) defined benefit plans established pursuant to the Public Employees' Pension Reform Act of 2013 (PEPRA), effective July 1, 2015. The recommended changes are applicable only to represented and non-represented employees who are members of General Plan G or Safety Plan C.

IT IS RECOMMENDED THAT THE BOARD:

1. Approve the employee contribution rate changes effective July 1, 2015, for all represented and non-represented employees who are members of General Member Plan G or Safety Member Plan C (Attachment A).

2. Instruct the Auditor-Controller to make the system changes necessary to implement this recommendation.

PURPOSE/JUSTIFICATION OF RECOMMENDED ACTION

The County Employees Retirement Law of 1937 (CERL) requires that an actuarial valuation of the retirement system be conducted at least once every three years. This law further requires that on the basis of such valuation, a recommendation is to be made to the Board of Supervisors prior to the beginning of the succeeding fiscal year to change employer and/or member contribution rates as may be necessary to properly fund the retirement system. Although a triennial review is required by law, the plan actuary (Milliman) conducts an annual review pursuant to LACERA's Board of Investments' Retirement Funding Policy to measure the plan's funding progress and to recommend any contribution rate changes.

The purpose of this recommendation is to set the employee contribution rates only for the defined benefit plans established pursuant to PEPRA - General Member Plan G and Safety Member Plan C. General G members will see a slight reduction (- .01 percent) in their required share of contributions being deducted starting with their July 30, 2015 paychecks, thereby resulting in a very slight increase in net pay. Safety C members will experience a slight increase (+.03 percent) in their required share of contributions being deducted starting with their July 30, 2015 paychecks, thereby resulting in a very slight decrease in net pay. According to LACERA's actuary, the changes in the rates were due to year-to-year changes in the active membership. Factors that affect contribution rates are the entry age, gender, and salary of the active members. There was a marginal change in each of these factors which, taken as a whole, contributed to the overall slight change in contribution rates.

The recommended rates are applicable to and are the same for represented and non-represented members of these plans. Also, the recommended rates are at a level that represents a 50 percent share of the plans' normal costs based upon the June 30, 2014 LACERA actuarial valuation report prepared by Milliman. This report was subsequently approved by LACERA's Board of Investments on December 10, 2014.

Employee Contribution Rate Change Schedule

The employee contribution rates for PEPRA plans (General Member Plan G and Safety Member Plan C) must be changed annually if indicated by the annual actuarial valuation to ensure that the employee contribution rates are maintained at a level that represents a 50 percent share of plans' normal costs.

In contrast, the employee contribution rates for the non-PEPRA plans (General Member Plans A, B, C, and D and Safety Member Plans A and B) are adjusted on a triennial basis if warranted by the Investigation of Experience study (experience study) that the plan actuary conducts in conjunction with the annual valuation. The experience study reviews the reasonableness of the economic and non-economic actuarial assumptions used to derive the employee and employer contribution rates. Specifically, it compares actual experience to what was predicted to happen using these actuarial assumptions. The actuary then determines whether any changes to the underlying assumptions or methodology are warranted to better project the retirement benefit plan's liabilities and asset growth. If changes are made, the non-PEPRA employee contribution rates are adjusted accordingly.

The last adjustment to these non-PEPRA plans was made effective July 1, 2014 based upon the June 30, 2013 valuation. Since there was no experience study conducted in conjunction with the June 30, 2014 valuation, Milliman did not recommend any changes to the employee contribution rates for the non-PEPRA plans at this time. If rate changes are recommended following the next scheduled experience study and valuation (period ending June 30, 2016), we will return to the Board with revised employee contribution rates for these non-PEPRA plans, effective July 1, 2017.

General Plan G and Safety Plan C

As described in rate change letters from previous years, PEPRA revised retirement contribution and benefits formulas and required the County to implement several significant changes with respect to contribution rates. One of the most significant changes mandated by PEPRA was the requirement that all new members of a California public retirement system as of January 1, 2013 must pay at least 50 percent of the normal cost of funding the retirement benefit. Normal cost is defined as the percentage of payroll for each fiscal year that must be contributed to the retirement fund to pay for the promised benefit as determined by the retirement plan actuary. To comply with these funding requirements, two new PEPRA defined benefit plans (General Member Plan G and Safety Member Plan C) were established and the non-contributory General Member Plan E was closed to new members, effective November 27, 2012.

Aside from the 50/50 cost sharing feature, these plans differ from the legacy LACERA defined benefit plans in that the employee contribution rates are the same for all participants regardless of entry age. This flat rate feature has significant advantages over the entry age-based rates including ease of administration and lower probability of calculation errors. Additionally, based upon a LACERA survey of other California public retirement plans, most are using flat rates versus entry age-based rates.

Implementation of Strategic Plan Goals

The retirement benefit and funding changes provided for in these recommendations are directly responsive to the Strategic Plan Goal of Operational Effectiveness/Fiscal Sustainability by ensuring sufficient funding of the County's retirement system and providing a means to more easily administer the subject plans.

FISCAL IMPACT/FINANCING

Since these recommendations are limited to changing the employee portion of the retirement contribution rates for PEPRA defined benefit plans, there is no increase in net County costs.

FACTS AND PROVISIONS/LEGAL REQUIREMENTS

The changes in the employee contribution rates for the PEPRA retirement plans have been discussed with the Coalition of County Unions and SEIU, Local 721. The recommended rates are detailed in Attachment A.

IMPACT ON CURRENT SERVICES (OR PROJECTS)

None.

Respectfully submitted,

SACHI A. HAMAI
Interim Chief Executive Officer

SAH:JJ:MTK
SM:VMH:mst

Enclosures

c: Executive Office, Board of Supervisors
County Counsel
Auditor-Controller
Human Resources
Los Angeles County Employees Retirement Association
Coalition of County Unions
SEIU, Local 721

ATTACHMENT A

EMPLOYEE CONTRIBUTION RATES FOR PEPRA RETIREMENT PLANS

(Note: Same rate for all entry ages)

Retirement Plan	Rates Effective July 1, 2015	Rates Effective July 1, 2014
General Members – Retirement Plan G	7.62%	7.63%
Safety Members – Retirement Plan C	13.42%	13.39%